

AGENCY NAME:	SC Office of the State Auditor		
AGENCY CODE:	F270	SECTION:	105

Fiscal Year 2015-16 Accountability Report

SUBMISSION FORM

AGENCY MISSION	To promote accountability and transparency in South Carolina state government by providing independent assurance and attest services.
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AGENCY VISION	Making a positive impact on state government through excellent client service.
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Please state yes or no if the agency has any major or minor (internal or external) recommendations that would allow the agency to operate more effectively and efficiently.



RESTRUCTURING RECOMMENDATIONS:	No
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Please identify your agency's preferred contacts for this year's accountability report.

	<u>Name</u>	<u>Phone</u>	<u>Email</u>
PRIMARY CONTACT:	George L. Kennedy, III, CPA	803-832-8929	gkennedy@osa.sc.gov
SECONDARY CONTACT:	Norma J. Dawkins	803-832-8238	ndawkins@osa.sc.gov

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I have reviewed and approved the enclosed FY 2015-16 Accountability Report, which is complete and accurate to the extent of my knowledge.

AGENCY DIRECTOR (SIGN AND DATE):	 		
(TYPE/PRINT NAME):	George L. Kennedy, III, CPA		

BOARD/CMSN CHAIR (SIGN AND DATE):	N/A		
(TYPE/PRINT NAME):			

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AGENCY'S DISCUSSION AND ANALYSIS

Purpose, Organization and Major Responsibilities

The Office of the State Auditor (OSA) serves as the independent audit function for the State of South Carolina. The OSA is organized into two service delivery divisions, State Agency and Medicaid, supported by an Administrative division.

State Agency Division - Composed of approximately 26 accounting professionals, this division has 4 core responsibilities:

1. Annual audit of the State's Comprehensive Annual Financial Report (CAFR) as prepared by the Office of the Comptroller General.
2. Annual audit of the Schedule of Expenditures of Federal Awards (Single Audit).
3. Attestation engagements of each state agency not separately audited, which are focused on internal controls.
4. Attestation engagements of county and municipal treasurers, county clerks of court, magistrates, and municipal courts to ensure that the imposition, collection and remittance of court fines, fees and assessments are in accordance with applicable state laws.

Medicaid Division - Composed of approximately 18 accounting professionals, this division performs attestation engagements of financial and statistical reports filed by providers of Medicaid services, primarily nursing facilities. These engagements, performed under contract with the South Carolina Department of Health and Human Services (DHHS), determine if cost claimed for reimbursement by the provider complies with the South Carolina State Plan for Medical Assistance, the applicable contract between DHHS and the Medicaid provider and all applicable state and federal laws and regulations. The contract agreement with DHHS requires that an engagement be performed on each provider facility at least once every 4 cost reporting periods.

Administrative Division – Composed of 6 administrative professionals who provide accounting, budgeting, human resource, purchasing, word processing and other administrative support for the agency.

Analysis of the Agency

The OSA was without an agency head for approximately 10 years. During that time, which included staff cutbacks and other budget reductions, the agency focused primarily on fulfilling its statutory requirements, and investment and strategic planning were minimal. An agency head was appointed in October 2015 who, together with a new OSA leadership team, has been evaluating the way it operates, and is working toward rebuilding itself into a modern audit organization equal to its peer audit organizations in other states.

The strategic direction has been focused on the following major elements:

People – Placing individuals in agency leadership who will drive positive change, and recruiting and retaining high performing audit professionals.

Process - Re-evaluating what we do and how we do it with a view toward making our work more efficient as well as more valuable to those we serve.

Place – Recognition that the work environment impacts the ability to recruit and retain high performing audit professionals.

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Technology – Taking advantage of the tools available to assist the agency in accomplishing its mission.

Major Accomplishments

The following accomplishments relate to the agency's core mission:

- Audit of the State's CAFR, performed jointly with CliftonLarsonAllen, LLP, a national public accounting firm. The audit process began in March and culminated with report issuance on November 25, 2015. Total cost for CliftonLarsonAllen's services was \$330,000, which was reimbursed by state agencies.
- Audit of the schedule of expenditures of federal awards (single audit), also performed jointly with CliftonLarsonAllen, LLP, and issued March 30, 2016, ahead of the March 31st deadline imposed by the US Government Accountability Office (GAO). Covering compliance with laws and regulations for nearly \$8 billion in federal award expenditures, the single audit engagement required nearly 12,400 hours to complete in addition to the assistance provided by various state agencies. Total cost for CliftonLarsonAllen's services was \$605,000, which was reimbursed by state agencies.
- Completion of 65 agreed-upon procedures engagements for state agencies covering fiscal years 2014 and 2015.
- Completion of 94 agreed-upon procedures engagements covering 48 healthcare providers receiving Medicaid reimbursement.
- Through contract with two certified public accounting firms, completion of 16 agreed-upon procedures engagements of county and municipal courts.
- Completion of a triennial review of the agency's system of quality control (aka "peer review") by a team of 5 audit professionals from state audit organizations outside of South Carolina. This review resulted in a rating of "pass", the best rating given.

Other significant accomplishments:

- Restructure of leadership to add directors for the agency's two service delivery divisions. Directors and the State Auditor compose the leadership team.
- Emphasis on process improvement to add efficiency to our engagement process and value to our deliverable.
- Emphasis on rebuilding relationships with legislature and other stakeholders across state government as well as with peer audit organizations in other states.
- Transfer of the technical library to an online service that can be accessed anywhere our staff have an internet connection. Our paper library will be significantly downsized.
- Selection of an audit management software product to be implemented during fiscal year 2017 for the State Agency division, with plans to implement during fiscal year 2018 for the Medicaid division. The software will allow for greater working flexibility and collaboration as well as allow us to eliminate paper engagement documentation files.
- Replacement of approximately 30 laptops to maintain work efficiency.
- Improvements to staff workspace.

Performance Comparison to Prior Years

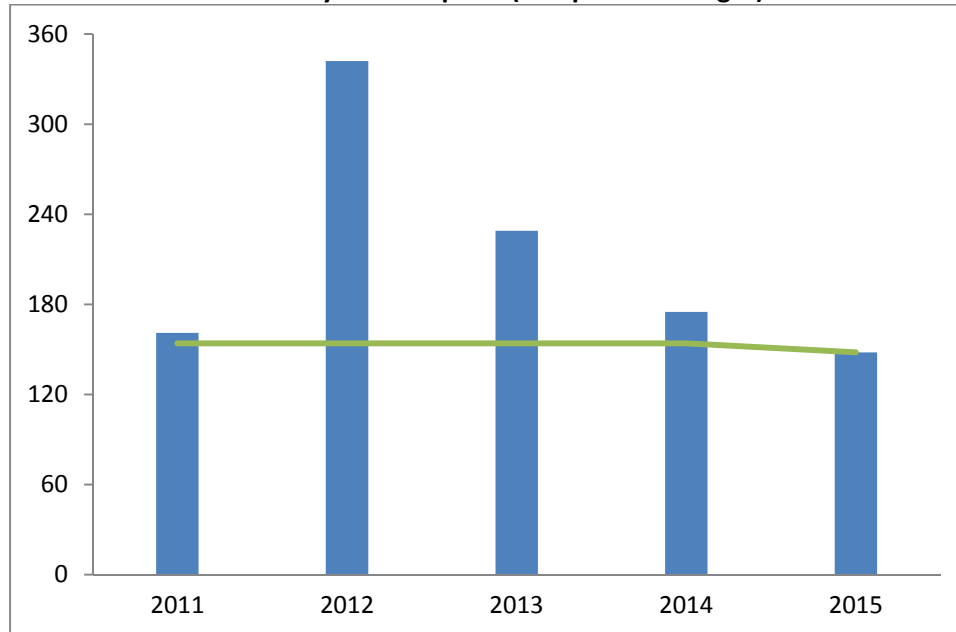
Audit of the State's CAFR

The State's CAFR for fiscal year 2015 was issued 148 days after fiscal year end, meeting the target agreed to by the Office of the Comptroller General and OSA, and 27 days ahead of 2014. As illustrated in Figure 1, completion of fiscal year 2012 and 2013 audits was especially challenging due to the statewide implementation of new financial accounting software. Through a combination of better planning and efficiencies along with closer coordination with the

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Comptroller General Office staff, the report issuance date is now back to being issued within a reasonable expectation. The goal for fiscal year 2016 is to issue the CAFR within 141 days of fiscal year end.

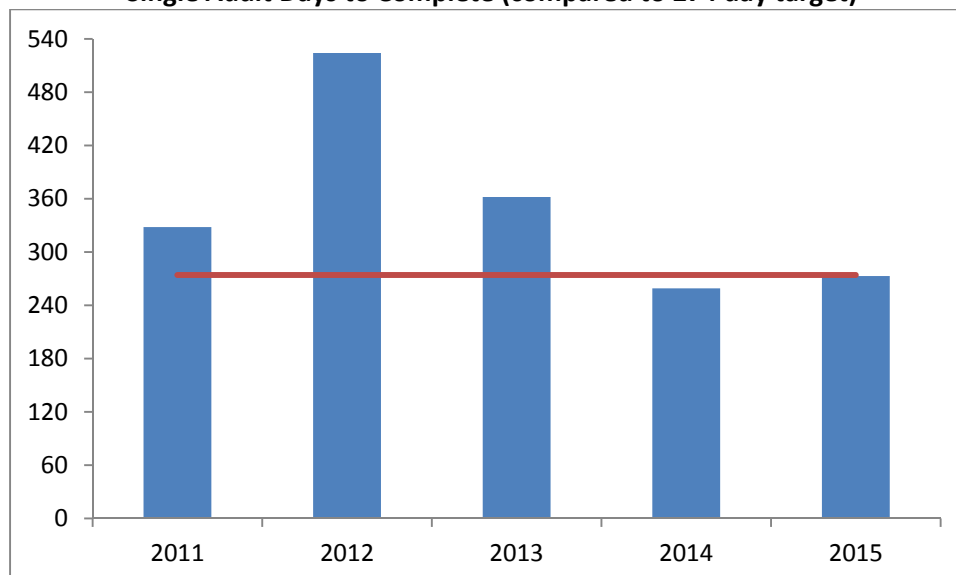
Figure 1
CAFR Days to Complete (compared to target)



Audit of Expenditures of Federal Awards (Single Audit)

The Single Audit for fiscal year 2015 was completed in 273 days, meeting the 274 day (March 31) deadline imposed by the US Office of Management and Budget. As illustrated in Figure 2, completion of the Single Audit for fiscal years 2011, 2012 and 2013 exceeded the deadline primarily because the CAFR audit took significant resources away from the Single Audit. OSA has set an internal goal for the fiscal year 2016 report to have the Single Audit issued within 260 days, two weeks before the official March 31 deadline.

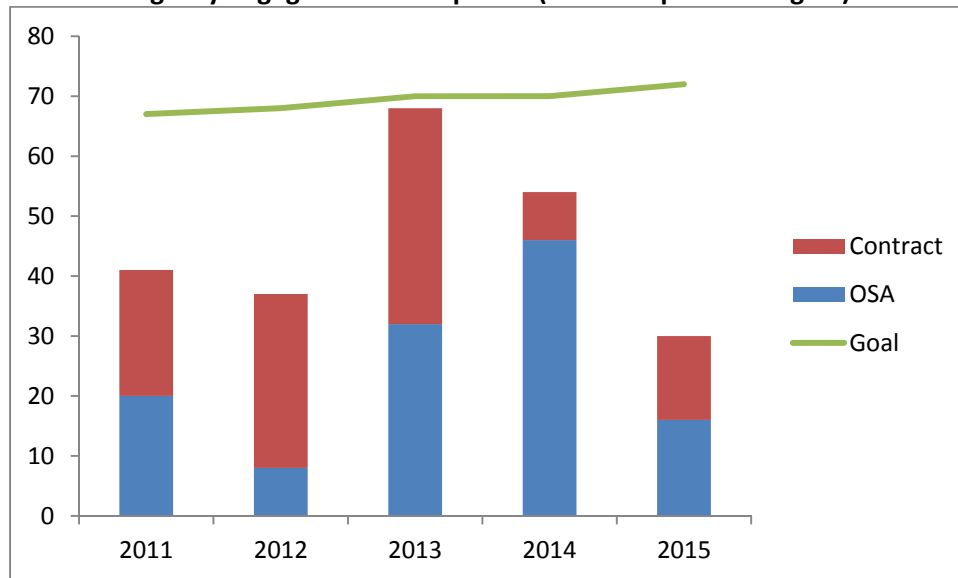
Figure 2
Single Audit Days to Complete (compared to 274 day target)



Agency Engagements Completed

An attest engagement should be completed for each agency annually. These engagements are performed between March and September for the prior fiscal year (e.g. FYE 6/30/15 engagements are performed during March to September 2016). Figure 3 illustrates engagements completed by fiscal year end (i.e. 2015 engagements are still in process at 6/30/16). The last time the goal was met was in 2008 for FYE 2007 engagements. We are re-examining this process with a focus on meeting the goal in future years.

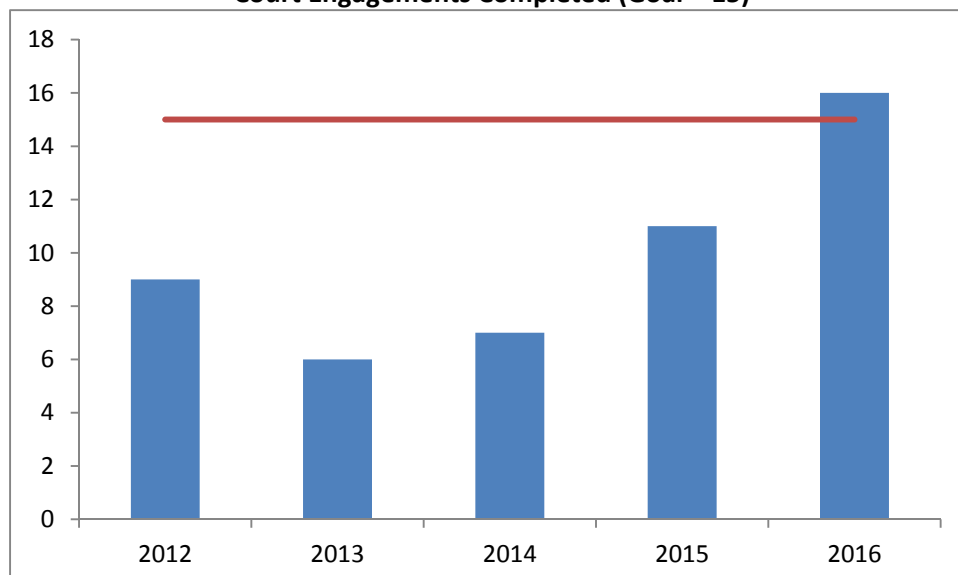
Figure 3
Agency Engagements Completed (with comparison to goal)



Court Engagements

For fiscal year 2016, 16 court engagements were issued, exceeding our goal of 15.

Figure 4
Court Engagements Completed (Goal = 15)

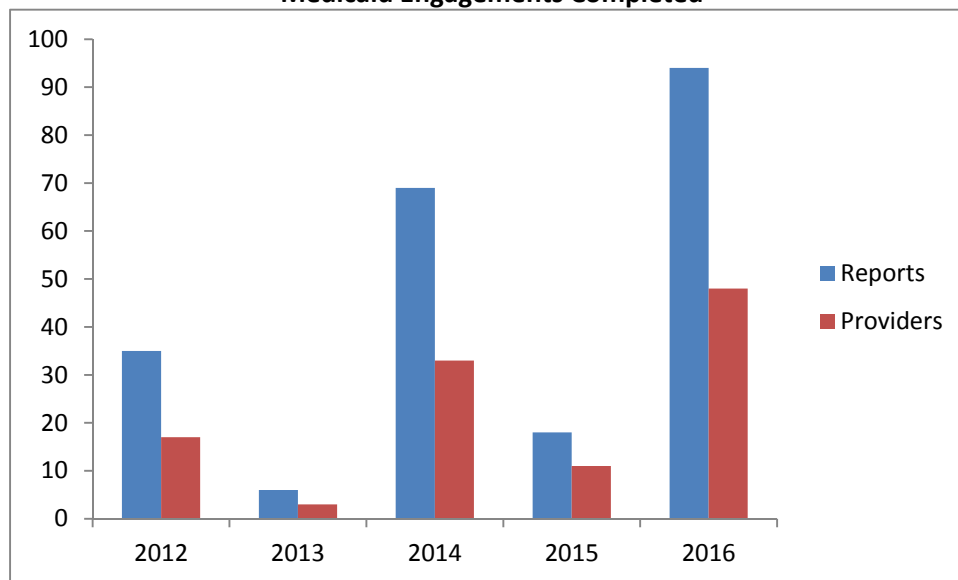


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Medicaid Engagements Completed

For fiscal year 2016, reports for 94 Medicaid engagements were issued, covering 48 healthcare providers and representing the highest number of report issuances and provider coverage since 2004. Our contract with the DHHS requires that an engagement be conducted for each nursing home provider at least once every four consecutive reporting periods. Issuance numbers for 2016 will help ensure that the terms of our contract with the DHHS will continue to be met. As illustrated in Figure 5, report issuance numbers can vary greatly between fiscal years. Swings of this nature are not unexpected and are due in large part to work related to large chain operations. Engagements of this nature typically span multiple fiscal years, which can result in significant swings in the number of reports issued from one year to the next. Several large chain engagements were started in fiscal years 2013 and 2015 with applicable reports being issued the following fiscal years. Fiscal year 2013 numbers were also affected by significant office wide staff shortages in fiscal years 2010, 2011 and 2012. The shortage required the shifting of resources away from Medicaid engagements to the higher priority Single Audit. This shift resulted in a significant reduction in the number of Medicaid engagements started, resulting in lower issuance numbers for fiscal year 2013.

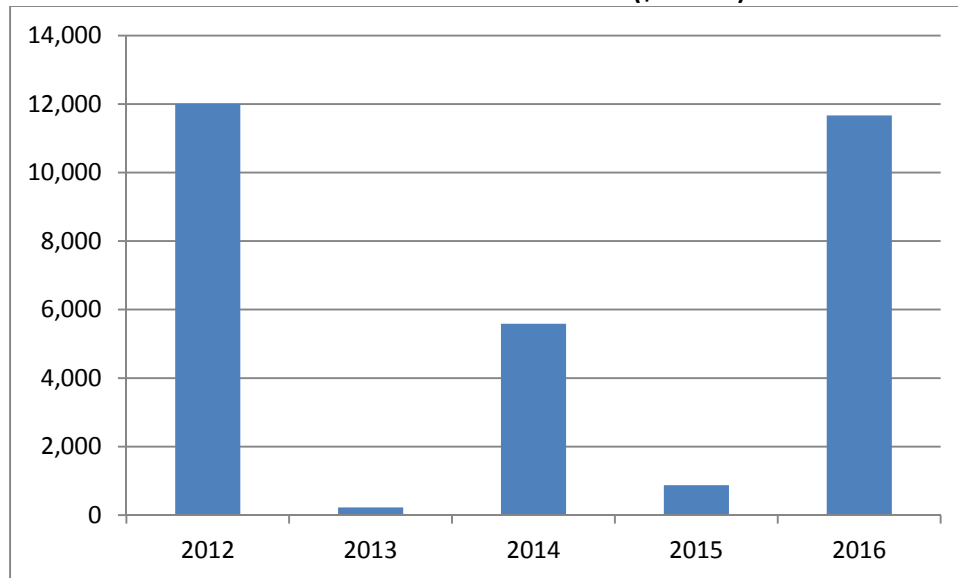
Figure 5
Medicaid Engagements Completed



Medicaid Receivables Identified

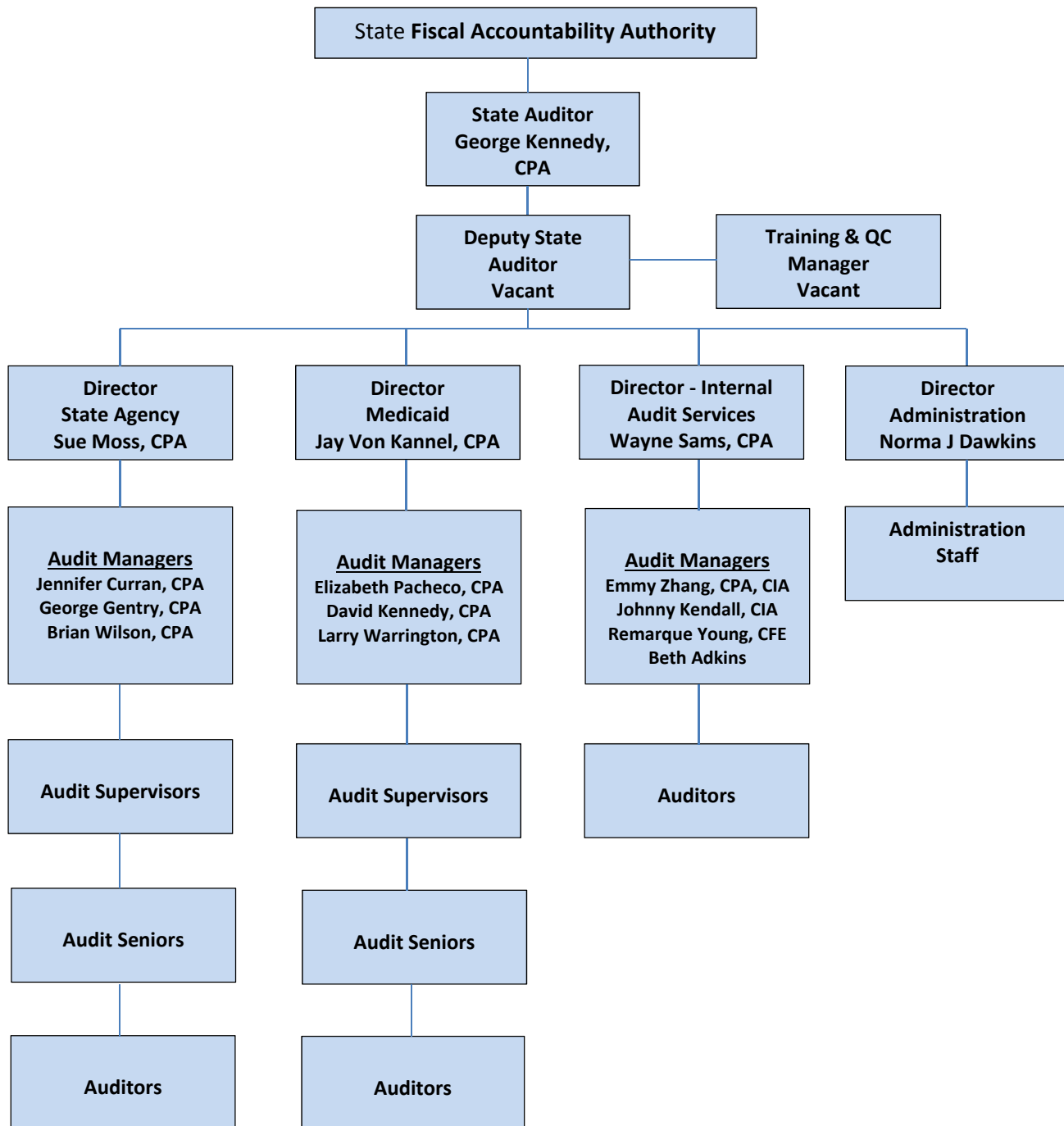
For fiscal year 2016, Medicaid receivables in the amount of \$11.5 million were established by the DHHS, based on findings contained in the Medicaid reports issued. As illustrated in Figure 6, Medicaid receivables can vary significantly from one year to the next. These receivables are not predictive and have no direct correlation to the number of reports issued. The degree of provider compliance with program rules and regulations when reporting cost claimed for reimbursement will always be the determining factor in the amounts established.

Figure 6
Medicaid Receivables Identified (\$ in 000)



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Organization Chart - as of 9/6/2016 (*Internal Audit services joined agency 7/1/2016*)



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Risk and Mitigation Strategies

The statewide CAFR provides reliable information regarding the financial performance of state government. The CAFR is used within state government, but also by the public and for special purposes such as debt issuance and compliance reporting. Failure of OSA to complete the audit of the statewide CAFR would create a situation where current, independently audited financial information would be unavailable, impeding financial transparency to the public as well as the State's ability to issue new debt. Existing debt could also be called by bond-holders due to noncompliance with financial reporting requirements. Similarly, failure to complete the statewide Single Audit and file the report timely with the federal government would likely interrupt the flow of nearly \$8 billion of federal awards due to lack of compliance with reporting requirements.

If either or both of these scenarios occurred, the State could mitigate the consequences by hiring a Certified Public Accounting firm to perform the audit work normally performed by OSA. Doing so, however, would likely come with a substantial cost and a protracted lead time to issue final reports due to the learning curve for a highly complex engagement and the 16,000 man-hours required to complete both engagements.

Restructuring Recommendations

There are no restructuring recommendations.

The Future

Significant initiatives for fiscal year 2017 and beyond include:

- Successfully managing the Department of Transportation internal audit function as an effective partner in helping DOT fulfill its mission.
- Recruiting a Training and Quality Control manager who will increase our capacity to address technical issues as they arise, develop tailored training for our staff and help assure that we maintain a robust system of quality control.
- Continuing the evaluation of audit technology and adaptation of those products that provide a cost benefit.
- Continuing to refine the engagement process to focus on entity-specific risk and provide more value to the agency.
- Development of a pay-for-performance incentive based on an enhanced performance management system with a goal of financially rewarding high performers.
- Continuing to refine our recruiting strategy in order to build a pipeline of qualified prospects for open positions.

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Strategic Planning Template

Type	Goal	Item # Strat	Object	Associated Enterprise Objective	Description
G	1				Deliver services which strengthen accountability and transparency
S		1.1			Assure our deliverables are meaningful to users
O			1.1.1		Align our approach with risks to enhance value and relevance through stronger agency interaction
O			1.1.2		Improve timeliness of our work product through report issuance goals/deadlines determined by report type
O			1.1.3		Translate our audit knowledge into operational advice by providing thoughtful suggestions for operational improvement
S		1.2			Maintain our reputation for independence, integrity and objectivity
O			1.2.1		Assure our work is performed in accordance with professional standards
O			1.2.2		Continually communicate and reinforce the importance of independence with our staff and formally at least annually
O			1.2.3		Maintain awareness of external perceptions of our agency through regular interaction with stakeholders
S		1.3			Provide effective internal audit services for SCDOT
O			1.3.1		Provide leadership for Internal Audit through integration into our agency
O			1.3.2		Build trust with SCDOT management and governance as Internal Audit is redeveloped
O			1.3.3		Develop strategic direction for internal audit in collaboration with DOT management
O			1.3.4		Deliver a consistent, fair and balanced work product issued collaboratively and timely
G	2			Education, Training, and Human Development	Develop and maintain a professional, high-performing and committed workforce
S		2.1			Increase employee knowledge and skills
O			2.1.1		Develop an individualized learning management system for all client service staff
O			2.1.2		Focus on knowledge transfer and succession management through formal mentoring
O			2.1.3		Identify and develop key skills necessary in a data driven audit environment
O			2.1.4		Increase staff with professional certification to 50% of all client service staff
S		2.2			Monitor productivity and performance
O			2.2.1		Set and measure utilization targets for client service staff
O			2.2.2		Improve accountability for engagement economics
O			2.2.3		Define and implement improvement strategies for performance management
S		2.3			Develop a stronger campus recruiting strategy
O			2.3.1		Place recruiting focus on fewer campuses, increased offer acceptance rate
O			2.3.2		Provide an excellent experience for recruits to increase offers accepted
O			2.3.3		Refine intern program to be a meaningful track to full time employment

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Type	Goal	Item # Strat	Object	Associated Enterprise Objective	Description
S		2.4			Create an environment that is recognized as a workplace of choice
O			2.4.1		Value and encourage diversity and collaboration
O			2.4.2		Provide flexible work practices
O			2.4.3		Create a culture which fosters success through coaching and mentoring
G	3			Government and Citizens	Manage agency resources effectively, prudently and with accountability
S		3.1			Assure an agile business operation
O			3.1.1		Strategically manage agency budget to deliver value for money
O			3.1.2		Re-evaluate processes to eliminate capacity constraints to maintain stable FTE's
O			3.1.3		Evaluate the mix of work performed in-house and contracted to maximize economy
S		3.2			Respond to change by maintaining a strategic focus
O			3.2.1		Evaluate systems and methods for efficiency and effectiveness
O			3.2.2		Empower staff to continuously improve processes
O			3.3.3		Encourage collaboration across divisions to create best practices
O			3.3.4		Define the role of contract service providers in accomplishing agency mission

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Performance Measurement Template

Item	Performance Measure	Target Value	Actual Value	Future Target Value	Time Applicable	Data Source and Availability	Calculation Method	Associated Objective(s)
1	Percent of agencies involved in pre-engagement planning to identify risk	NA	NA	100%	6/30	Internal records - available continuously	Manual count	1.1.1
2	Audit of the State's CAFR completed by target date - number of days past due	0	0	0	11/25	Internal records - available continuously	Manual count	1.1.2
3	Audit of the State's Schedule of Expenditures of Federal Awards (Single Audit) by target date - number of days past due	0	0	0	3/31	Internal records - available continuously	Manual count	1.1.2
4	Attest engagements of state agencies (including those contracted) completed by 6/30 of the following year	100%	77%	100%	3/1 - 9/30	Internal records - available continuously	Manual count	1.1.2
5	Attest engagements of Medicaid financial statistical reports completed every 4 years - 25% per year target	25%	33%	25%	7/1 - 6/30	Internal records - available continuously	Manual count	1.1.2
6	Number of recommendations made excluding compliance findings	NA	NA	70	6/30	Internal records - available continuously	Manual count	1.1.3
7	Quality Control Review results in "pass" rating	Pass	Pass	Pass	3/1/15 - 2/28/16	Quality Control Review	Assigned by third party audit	1.2.1
8	Number of engagements randomly selected through annual internal inspection process to assure quality	8	8	10	6/30	Internal records - available continuously	Manual count	1.2.1
9	Annual independence report completed by staff	100%	100%	100%	7/1 - 6/30	Internal records - available continuously	Manual count	1.2.2
10	Internal audit reports delivered to SCDOT management and governance	NA	NA	10	7/1 - 6/30	Internal records - available continuously	Manual count	1.3.4
11	Annual training hours obtained by staff - average	40	40	40	1/1 - 12/31	Internal records - available continuously	Manual count	2.1.1
12	Number of staff with CPA certification	25	12	25	6/30	Internal records - available continuously	Manual count	2.1.4
13	Budget/actual comparison of hours to complete CAFR audit	2,825	2,599	2,825	7/1 - 6/30	Internal records - available continuously	Budget to actual report	2.2.2
14	Budget/actual comparison of hours to complete Single Audit	7,500	7,225	7,500	7/1 - 6/30	Internal records - available continuously	Budget to actual report	2.2.2
15	Budget/actual comparison of hours to complete agency attestation engagements	23,850	22,350	23,850	7/1 - 6/30	Internal records - available continuously	Budget to actual report	2.2.2
16	Budget/actual comparison of hours to complete Medicaid provider engagements	23,700	24,790	Within the budget established each fiscal year	7/1 - 6/30	Internal records - available continuously	Budget to actual report	2.2.2
17	Office interviews which lead to an accepted offer of employment	NA	NA	75%	6/30	Internal records - available continuously	Manual count	2.3.2
18	Percent of new hires who are other than white males	75%	72%	75%	9/30	Internal records - available continuously	Manual count	2.4.1
19	Number of staff using flexible work arrangements	80%	93%	80%	6/30	Internal records - available continuously	Manual count	2.4.2
20	Manage agency spending to within 90% of budget	90%	91%	90%	6/30	Internal records - available continuously	Budget to actual report	3.1.1

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Performance Measurement Template

Item	Performance Measure	Target Value	Actual Value	Future Target Value	Time Applicable	Data Source and Availability	Calculation Method	Associated Objective(s)
21	Number of agency attestation engagements contracted to CPA firms	13	0	0	6/30	Internal records - available continuously	Manual count	3.1.3

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Program Template

Program/Title	Purpose	FY 2015-16 Expenditures (Actual)				FY 2016-17 Expenditures (Projected)				Associated Objective(s)
		General	Other	Federal	TOTAL	General	Other	Federal	TOTAL	
Administration	Administrative support for audit programs, including accounting, budgeting, procurement, information technology, human resources and other general administrative functions.	\$ 241,829			\$ 241,829	\$ 305,119			\$ 305,119	All
Audits	Performance of the audits of the State's CAFR and the Schedule of Expenditures of Federal Awards; attestation engagements of State agencies; attestation engagements of county and municipal court fines, fees and assessments; attestation engagements of Medicaid service providers.	\$ 2,309,844	\$ 1,623,988		\$ 3,933,832	\$ 2,378,340	\$ 2,158,029		\$ 4,536,369	All
Employee Benefits	Employee benefits for employees of the Office of the State Auditor.	\$ 618,730	\$ 183,275		\$ 802,005	\$ 809,751	\$ 221,610		\$ 1,031,361	All
Internal Audit	Provide internal audit services for the SC Department of Transportation	\$ -	\$ -		\$ -	\$ -	\$ 716,713		\$ 716,713	NA - began 7/1/2016

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						Legal Standards Template
Item #	Law Number	Jurisdiction	Type of Law	Statuary Requirement and/or Authority Granted		Associated Program(s)
1	11-7-20	State	Statute	Annual audits of state agencies		State Agency Division
2	11-7-25	State	Statute	Periodic audits - courts		State Agency Division
3	11-7-40	State	Statute	Medicaid engagements under contract with DHHS		Medicaid Audits Division
4	11-7-55	State	Statute	Use of certified public accountants		State Agency Division
5	11-7-60	State	Statute	Reimbursed audit costs		State Agency Division
6	105.1	State	Proviso	Annual audit of federal programs		State Agency Division
7	105.2	State	Proviso	Carryover Medicaid funds		Medicaid Audits Division
8	105.3	State	Proviso	Fraud identified referred to Insector General		State Agency Division
9	105.4	State	Proviso	Annual audit of court fees and fines		State Agency Division
10	19.1	State	Proviso	Review and audit as necessary financial structure and activities of South Carolina State University		State Agency Division
11	57-1-360	State	Statute	Responsibility for Department of Transportation internal audit transferred to State Auditor		Internal Audit Division

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Customer Template

Divisions or Major Programs	Description	Service/Product Provided to Customers	Customer Segments	<i>Specify only for the following Segments:</i> (1) <u>Industry:</u> Name; (2) <u>Professional Organization:</u> Name; (3) <u>Public:</u> Demographics.
State Agency Division	Assurance and attestation engagements statewide and agency specific	Assurance and attestation services	Executive Branch/State Agencies	
State Agency Division	Attestation engagements of court fines, fees and assesments	Attestation services	Executive Branch/State Agencies	
Medicaid Division	Attestation engagements of financial statistical reports filed by Medicaid service providers	Attestation services	Executive Branch/State Agencies	
Internal Audit Division	Internal audit services	Internal audit services	Executive Branch/State Agencies	

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Partner Template

Name of Partner Entity	Type of Partner Entity	Description of Partnership	Associated Objective(s)
Various CPA firms	Private Business Organization	Contract assurance services	State Audit Division
Law firm specializing in Medicaid	Private Business Organization	Legal services	Medicaid Audit Division
SC DHHS	State Agency	Program documentation and technical support	Medicaid Audit Division

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Report Template

Item	Report Name	Name of Entity Requesting the Report	Type of Entity	Reporting Frequency	Submission Date (MM/DD/YYYY)	Summary of Information Requested in the Report	Method to Access the Report
1	All assurance reports issued	SFAA	State	Monthly	Various	All assurance reports issued are required to be transmitted to members of the SFAA	Email notification with link to report on agency website

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Oversight Review Template

Item	Name of Entity Conducted Oversight Review	Type of Entity	Oversight Review Timeline (MM/DD/YYYY to MM/DD/YYYY)	Method to Access the Oversight Review Report
1	NSAA - Peer Review	Outside Organization	5/1/15 to 4/30/16	Agency website